

AKSIGORTA A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE INTERIM PERIOD JANUARY 1 - JUNE 30, 2019
TOGETHER WITH AUDITOR'S REVIEW REPORT**



REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

To the Board of Directors of Aksigorta A.Ş.

Introduction

1. We have reviewed the accompanying condensed interim statement of financial position of Aksigorta A.Ş. (the "Company") as of 30 June 2019 and the related condensed interim statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six -month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

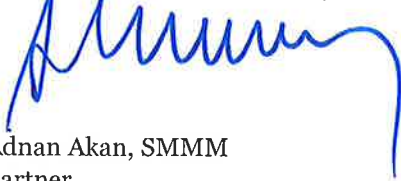
Scope of review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.



Adnan Akan, SMMM
Partner

Istanbul, 31 July 2019

AKSIGORTA A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 1 - JUNE 30, 2019**

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AKSİGORTA A.Ş.**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD JANUARY 1 - JUNE 30, 2019**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

Assets	Note	Reviewed June 30, 2019	Audited December 31, 2018
Total current assets		6,427,251,490	5,371,255,833
Cash and cash equivalents	9	1,938,125,078	1,969,568,662
Financial assets			
Debt securities:			
- Available for sale at company’s risk	8	578,202,549	379,199,276
- Held for trading at company’s risk	8	439,950,589	168,805,442
- Held to maturity at company’s risk	8	26,481,451	9,752,674
- Available for sale at insurees' risk	8	1,742,288	1,686,241
Premium receivables		714,535,638	550,022,938
Due from reinsurers		39,092,858	28,966,554
Reinsurance share of insurance liabilities	11	2,512,120,262	2,055,353,150
Deferred acquisition costs		133,438,846	120,592,122
Derivative financial assets		16,334,764	33,895,401
Other current assets		27,227,167	53,413,373
Total non-current assets		149,365,374	114,824,301
Tangible assets	5	23,922,006	24,329,768
Right of use assets	5	29,734,547	-
Intangible assets	6	58,019,678	55,639,894
Equity securities:			
- Available for sale	8	430,032	430,032
Deferred income tax assets	14	37,109,130	34,274,627
Other non-current assets		149,981	149,980
Total assets		6,576,616,864	5,486,080,134
Liabilities	Note	Reviewed June 30, 2019	Audited December 31, 2018
Total current liabilities		5,956,750,985	4,833,306,005
Obligations under repurchase agreements		239,097,473	49,954,452
Insurance liabilities	11	4,876,742,535	4,138,493,725
Payables to reinsurers	12	622,931,056	446,831,845
Other financial liabilities		-	8,494,258
Lease liabilities	12	5,852,023	-
Provisions for other liabilities and charges		65,498,498	40,333,473
Trade and other payables	12	102,995,097	136,956,745
Current income tax liabilities	14	43,634,303	12,241,507
Total non-current liabilities		33,454,258	6,503,684
Provision for retirement benefit obligation		7,179,124	6,503,684
Lease liabilities	12	26,275,134	-
Total equity		586,411,621	646,270,445
Shareholders' equity	10	306,000,000	306,000,000
Legal and other reserves	10	137,889,692	112,230,612
Actuarial loss arising from employee benefit	10	(4,313,882)	(3,602,019)
Available-for-sale investments fund	10	(8,010,510)	(10,638,677)
Retained earnings/accumulated deficit		154,846,321	242,280,529
Total equity and liabilities		6,576,616,864	5,486,080,134

The accompanying notes form an integral part of these condensed interim financial statement.

AKSIGORTA A.Ş.**CONDENSED INTERIM INCOME STATEMENT
FOR THE PERIOD JANUARY 1 - JUNE 30, 2019**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

Income Statement	Note	Reviewed January 1 - June 30, 2019	Reviewed January 1 - June 30, 2018
Insurance premium revenue	13	1,811,240,018	1,449,448,904
Insurance premium ceded to reinsurers	13	(798,211,513)	(609,920,700)
Net insurance premium revenue	13	1,013,028,505	839,528,204
Investment income		163,143,259	125,719,455
Commission income		100,162,772	85,416,327
Other operating income		4,573,062	3,634,704
Net income		1,280,907,598	1,054,298,690
Insurance claims	16	(1,186,042,645)	(1,033,597,404)
Insurance claims recovered from reinsurers	16	433,591,522	439,059,304
Net insurance claims	16	(752,451,123)	(594,538,100)
Commission expense		(259,988,903)	(227,705,294)
Expenses for marketing and administration	15	(109,144,980)	(90,677,725)
Other operating expenses		(44,044,905)	(23,974,548)
Insurance claims and expenses		(1,165,629,911)	(936,895,667)
Results of operating activities		115,277,687	117,403,023
Foreign exchange gain / (loss), net		74,077,241	(8,438,320)
Profit before tax		189,354,928	108,964,703
Income tax expense	14	(49,170,056)	(25,057,072)
Profit for the period		140,184,872	83,907,631
Earnings per share		0.0046	0.0027

The accompanying notes form an integral part of these condensed interim financial statements.

AKSIGORTA A.Ş.**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD JANUARY 1 - JUNE 30, 2019**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

		Reviewed	Reviewed
Statement of comprehensive income	Note	January 1 - June 30, 2019	January 1 - June 30, 2018
Profit for the period		140,184,872	83,907,631
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Change in available-for-sale financial assets fund, net off deferred tax		2,628,167	(6,337,525)
Cash flow hedging, net off deferred tax		-	7,116,132
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		2,628,167	778,607
Other comprehensive income not being reclassified to profit or loss in subsequent periods:			
Actuarial loss, net off deferred tax		(711,863)	211,689
Net other comprehensive income not being reclassified to profit or loss in subsequent periods		(711,863)	211,689
Other comprehensive income, net of tax		1,916,304	990,296
Total comprehensive income for the year, net of tax		142,101,176	84,897,927

The accompanying notes form an integral part of these condensed interim financial statements.

AKSİGORTA A.Ş.

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD JANUARY 1 - JUNE 30, 2019**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

June 30, 2018		Reviewed						
	Note	Share capital	Available-for-sale investment funds	Legal reserves	Actuarial loss arising from employee benefit	Cash flow hedging	Retained earnings	Total
Balances at December 31, 2017	10	306,000,000	(14,469)	95,403,929	(3,242,827)	17,618,782	156,149,457	571,914,872
Profit for the year		-	-	-	-	-	83,907,631	83,907,631
Transfer		-	-	16,826,683	-	-	(16,826,683)	-
Other comprehensive income		-	(6,337,525)	-	211,689	7,116,132	-	990,296
Total comprehensive income	10	-	(6,337,525)	16,826,683	211,689	7,116,132	67,080,948	84,897,927
Dividend payment		-	-	-	-	-	(110,160,000)	(110,160,000)
June 30, 2018	10	306,000,000	(6,351,994)	112,230,612	(3,031,138)	24,734,914	113,070,405	546,652,799
June 30, 2019		Reviewed						
	Note	Share capital	Available-for-sale investment funds	Legal reserves	Actuarial loss arising from employee benefit	Cash flow hedging	Retained earnings	Total
Balances at December 31, 2018	10	306,000,000	(10,638,677)	112,230,612	(3,602,019)	-	242,280,529	646,270,445
Profit for the year		-	-	-	-	-	140,184,872	140,184,872
Transfer		-	-	25,659,080	-	-	(25,659,080)	-
Other comprehensive income		-	2,628,167	-	(711,863)	-	-	1,916,304
Total comprehensive income	10	-	2,628,167	25,659,080	(711,863)	-	114,525,792	142,101,176
Dividend payment		-	-	-	-	-	(201,960,000)	(201,960,000)
June 30, 2019	10	306,000,000	(8,010,510)	137,889,692	(4,313,882)	-	154,846,321	586,411,621

The accompanying notes form an integral part of these condensed interim financial statements.

AKSIGORTA A.Ş.**INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE YEAR PERIOD JANUARY 1 - JUNE 30, 2019**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

Cash Flow Statement	Note	January 1 - June 30, 2019	January 1 - June 30, 2018
Cash inflows from insurance operations		2,676,381,968	2,149,078,539
Cash outflows from insurance operations		(2,513,810,980)	(1,802,115,361)
Income tax payment		(31,558,719)	(26,860,137)
Cash inflows/(outflows)from operational expenses		(88,887,046)	(81,368,134)
Net cash flows from operating activities		42,125,223	238,734,907
Tangible and intangible asset acquisitions		(13,722,362)	(7,778,225)
Financial asset acquisitions / disposals		(25,089,780)	43,956,545
Interest received		140,955,368	69,241,773
Other cash inflows/(outflows)		19,517,308	3,463,340
Net cash flows from investing activities		121,660,534	108,883,433
Dividends paid		(201,960,000)	(110,160,000)
Net cash (outflow)/inflows from financing operations		-	-
Net increase/(decrease) in cash and cash equivalents		(38,174,243)	237,458,340
Cash and cash equivalents at the beginning of the period		1,763,461,138	1,200,503,027
Cash and cash equivalents at the end of the period	9	1,725,286,895	1,437,961,367

The accompanying notes form an integral part of these condensed interim financial statements.

AKSIGORTA A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

1. General Information

Aksigorta A.Ş. (“the Company”) is a joint venture of Hacı Ömer Sabancı Holding A.Ş. and Ageas Insurance International N.V. as of June 30, 2019. 38.02% (December 31, 2017: 38.02%) of the Company is issued in Borsa İstanbul (“BİST”) (Note 2.3).

Agreement about the sale of 50% of 18,965,880,200 units of Aksigorta A.Ş. shares with TL 189,658,802 nominal value that belong to H.Ö. Sabancı Holding (“Holding”) portfolio was signed with Ageas Insurance International N.V. at 18 February 2011. At the date of 29 July 2011, 9,482,940,100 units of Aksigorta A.Ş. shares that correspond to 50% of the Holding’ s portfolio have been transferred to Ageas Insurance International N.V. with the sale price (excluding the corrections) of USD 220,029,000. According to the joint administration agreement that signed with Ageas Insurance International N.V. at 18 February 2011, Holding’s previous administrative controls over Aksigorta A.Ş. are going to remain equally with Ageas Insurance International N.V.

The Company is a corporation, which was established in accordance with the requirements of Turkish Commercial Code and registered in Turkey as at 25 April 1960. The Company is located at Poligon Cad. Buyaka 2 Sitesi No:8 Kule:1 Kat:0-6 Ümraniye 34771, İstanbul.

The Company’s main operations include insurance activities based on non-life insurance branches, including primarily motor third party liability, motor, fire, marine, accident, personal accident, engineering, agriculture and health.

Average numbers of employees during the period by category are as follows:

	June 30, 2019	December 31, 2018
Top and middle management	137	112
Other personel	517	627
Total	654	739

Remuneration and fringe benefits provided to top management such as; chairman and members of the board of directors, managing director and assistant managing directors amount to TL 3,709,315 in total for January 1 - June 30, 2019 (January 1 - June 30, 2018: TL 2,923,970).

Financial statements include only one company (Aksigorta A.Ş.) and the Company does not have any subsidiaries or affiliates as of June 30, 2019 (December 31, 2018: None).

The Company’s interim condensed financial statements as of June 30, 2019 are approved and authorized for issuance as of August 8, 2019 by the Board of Directors.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
AS AT JUNE 30, 2019**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements at June 30, 2019 have been prepared in accordance with International Financial Reporting Standard as defined by IAS 1. In accordance with the International Accounting Standard No: 34 “Interim Financial Reporting”, entities are allowed to prepare a complete or condensed set of interim financial statements. In this respect, the Company has preferred to prepare condensed financial statements in the interim periods. Accordingly, the financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company’s annual financial statements as at June 30, 2019 and any public announcement made by the company during the period.

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira (“TL”) in accordance with the Insurance Law numbered 5684 and the regulations issued for insurance and reinsurance companies by the Undersecretary at of Treasury which is also the functional currency of the Company. These financial statements are based on the statutory records, with adjustments and reclassifications, for the purpose of fair presentation in accordance with IFRS.

The preparation of financial statements in accordance with IFRS requires the use of estimates. It also requires management to exercise its judgements in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to financial statements are disclosed Note 3.

Comparative information and restatement of prior period financial statements

The Company’s statement of financial position as of June 30, 2019 is presented in comparison with its statement of financial position as of December 31, 2018; statement of comprehensive income, statement of changes in equity and statement of cash flows for the period between January 1 - June 30, 2019 are presented in comparison with its statement of comprehensive income, statement of changes in equity and statement cash flows for the period between January 1 - June 30, 2018.

2.2 Adoption of New and Revised Standards

The new standards, amendments and interpretations

The accounting policies applied in the preparation of the financial statements as of January 1 - June 30, 2019 are consistent with those applied in the preparation of the financial statements as of December 31, 2018, except for the new standards and amended IAS/IFRS standards which are valid as of January 1, 2019 and International Financial Reporting Interpretations Committee’s (“IFRIC”) interpretations summarised below.

Standards, amendments and interpretations applicable as at 30 June 2019:

- **Amendment to IFRS 9, ‘Financial instruments’;** effective from annual periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

Until the date of validity of IFRS 17, the Company benefits from the temporary relief subjects for IFRS 9 partaking IFRS 4.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
AS AT JUNE 30, 2019**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Summary of significant accounting policies (Continued)

2.2 Adoption of New and Revised Standards (Continued)

- **Amendment to IAS 28, ‘Investments in associates and joint venture’**; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

IFRS 16, ‘Leases’; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 ‘Revenue from Contracts with Customers’ is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payment:

- a) Fixed payments (including in substance fixed payments), less any lease incentives receivable
- b) Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar economic environment with similar terms and conditions.

Right of use assets are measured at cost comprising the following:

- a) The amount of the initial measurement of lease liability
- b) Any lease payments made at or before the commencement date less any lease incentives received
- c) Any initial direct costs and
- d) Restoration costs

On adaption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principle of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 25% for local currency liabilities.

AKSIGORTA A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Summary of significant accounting policies (Continued)

2.2 Adoption of New and Revised Standards (Continued)

1 January 2019

Lease liabilities under IAS 17	58,360,359
- Short term leases recognised on a straight line basis as expense(-)	(18,880)

Total Lease liabilities under IFRS 16 (Undiscounted)	58,341,479
Total Lease liabilities under IFRS 16 (Discounted)	31,004,961

Short term lease liabilities	1,937,578
Long term lease liabilities	29,067,383

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

The recognised right of use assets relate to the following types of assets:

	30 June 2019	1 January 2019
Property	24,952,092	27,717,430
Vehicles	4,782,455	6,080,531
Total right of use assets	29,734,547	33,797,961

The Company has TL 4,063,414 depreciation expense with regards to the booked right of use assets between 1 January - 30 June 2019.

IFRIC 23, ‘Uncertainty over income tax treatments’; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Interpretation has been implemented for the periods after January 1, 2019. The changes are not applicable for the Company. There is no impact on the Company’s financial situation and performance. The Company assesses the effects on financial situation and performance.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
AS AT JUNE 30, 2019**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Summary of significant accounting policies (Continued)

2.2 Adoption of New and Revised Standards (Continued)

Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- IFRS 3, ‘Business combinations’, - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, ‘Joint arrangements’, - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, ‘Income taxes’ - a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, ‘Borrowing costs’ - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The Company assesses the effects of the standards above on the financial situation and performance.

Amendments to IAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement’; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

Improvement has been valid for the periods after January 1, 2019. The Company assesses the effects of the standards on the financial situation and performance.

Standards, amendments and interpretations that are issued but not effective as at 30 June 2019:

Amendments to IAS 1 and IAS 8 on the definition of material; effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:

- i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in IAS 1 about immaterial information.

Improvement has been valid for the periods after January 1, 2020. The Company assesses the effects of the standards on the financial situation and performance.

Amendments to IFRS 3 - definition of a business; effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

The Company assesses the effects of the standards above on the financial situation and performance.

IFRS 17, ‘Insurance contracts’; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Standard will be implemented for the periods after January 1, 2022. The Company assesses the effects of the standard on the financial situation and performance.

AKSIGORTA A.Ş.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. Summary of significant accounting policies (Continued)

2.3 Share capital

As of June 30, 2019, the Company’s nominal capital is TL 306,000,000 (December 31, 2018: TL 306,000,000). Share capital is represented by 30,600,000,000 of equity shares having a nominal amount of TL 0,01 each.

The share capital structure of the Company is as follows:

Name of shareholders	June 30, 2019		December 31, 2018	
	Share	Share amount	Share	Share amount
H. Ömer Sabancı Holding A.Ş.	36.00	110,160,000	36.00	110,160,000
Ageas Insurance International NV	36.00	110,160,000	36.00	110,160,000
Publicly quoted shares	28.00	85,680,000	28.00	85,680,000
Total	100.00	306,000,000	100.00	306,000,000

Agreement about the sale of 50% of 18,965,880,200 units of Aksigorta A.Ş. shares with nominal value of TL 189,658,802 that belong to H.Ö. Sabancı Holding (“Holding”) portfolio, was signed with Ageas Insurance International N.V. at 18 February 2011. 9,482,940,100 units of Aksigorta A.Ş. shares that correspond to 50% of the Holding’s portfolio has been transferred to Ageas Insurance International N.V. on 29 July 2011 with a sale price of USD 220,029,000 except for adjustments to sale price.

The Company has accepted the registered capital system set out in accordance with the provisions of Law No: 2499 and applied the system as of June 15, 2000 upon the permission no: 67/1039 granted by the Capital Markets Board. As of June 30, 2019, the Company’s registered share capital is TL 500,000,000 (December 31, 2018: TL 500,000,000).

3. Critical accounting estimates and judgements

Preparation of financial statements requires the use of estimations and assumptions which may affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the statement of financial position date and reported amounts of income and expenses during the financial period. Accounting estimates and assumptions are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under current circumstances. Although the estimations and assumptions are based on the best knowledge of the management for existing events and operations, they may differ from the actual results.

The estimation of the ultimate liability for technical expenses that can be incurred for the existing insurance contracts is one of the most critical accounting estimates. Estimation of the insurance liabilities, by nature, includes the evaluation of several uncertainties.

4. Segment information

Information related to the operational reporting made by the Company to the chief operating decision-maker in accordance with the “IFRS 8 - Operating Segments” is disclosed in this part.

Numerical limits in “IFRS 8 - Operating Segments” is also considered as the reporting to the chief operating decision-maker in the determination of segments and the premium production and net technical income of the segments are considered while determining a separate operating segment.

The Company has been operating in Turkey. Since the effect of the foreign operations on financial statements is extremely low, geographic segment information is not given.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

4. Segment information (Continued)

Segment results for period January 1 - June 30, 2019 is as follows:

January 1 - January 30, 2019	Fire	Marine	Motor Own Damage (MOD)	Motor Third Party Liability	General Losses	Health	Other	Undistributed	Total
TECHNICAL INCOME	95,604,371	13,871,118	372,464,334	421,922,602	52,690,529	41,278,496	15,197,055	-	1,013,028,505
Earned Premiums (Net of Reinsurer Share)	95,604,371	13,871,118	372,464,334	421,922,602	52,690,529	41,278,496	15,197,055	-	1,013,028,505
Premiums (Net of Reinsurer Share)	112,039,547	14,497,551	375,840,235	498,886,829	57,918,582	53,040,566	12,310,124	-	1,124,533,434
Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward) (+/-)	(16,435,176)	(626,433)	(3,375,901)	(76,964,227)	(5,228,053)	(11,762,070)	2,886,931	-	(111,504,929)
TECHNICAL EXPENSES	(79,917,491)	(5,721,020)	(369,953,676)	(476,936,162)	(63,990,921)	(34,431,037)	(29,943,770)	-	(1,060,894,077)
Total Claims (Net of Reinsurer Share)	(38,872,456)	(3,721,978)	(276,761,159)	(379,929,274)	(38,706,598)	(9,029,078)	(5,430,580)	-	(752,451,123)
Claims Paid (Net of Reinsurer Share)	(42,208,338)	(2,454,332)	(259,541,420)	(260,768,582)	(10,023,398)	(4,249,375)	(3,228,910)	-	(582,474,355)
Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward) (+/-)	3,335,882	(1,267,646)	(17,219,739)	(119,160,692)	(28,683,200)	(4,779,703)	(2,201,670)	-	(169,976,768)
Commission income/(expenses) (Net)	(12,220,580)	(778,113)	(46,920,384)	(45,778,255)	(13,852,172)	(17,780,254)	(22,496,373)	-	(159,826,131)
Operating Expenses	(25,429,901)	(728,417)	(35,335,376)	(30,353,259)	(9,561,307)	(6,156,182)	(1,580,538)	-	(109,144,980)
Other Operating Income / Expenses	(3,394,554)	(492,512)	(10,936,757)	(20,875,374)	(1,870,844)	(1,465,523)	(436,279)	-	(39,471,843)
Technical Profit	15,686,880	8,150,098	2,510,658	(55,013,560)	(11,300,392)	6,847,459	(14,746,715)	-	(47,865,572)
Investment income	-	-	-	-	-	-	-	163,143,259	163,143,259
Foreign exchange income	-	-	-	-	-	-	-	74,077,241	74,077,241
Tax expense	-	-	-	-	-	-	-	(49,170,056)	(49,170,056)
Net Profit / (Loss)	15,686,880	8,150,098	2,510,658	(55,013,560)	(11,300,392)	6,847,459	(14,746,715)	188,050,444	140,184,872

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(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

4. Segment information (Continued)

Segment results for period January 1 - June 30, 2018 is as follows:

January 1 - January 30, 2018	Fire	Marine	Motor Own Damage (MOD)	Motor Third Party Liability	General Losses	Health	Other	Undistributed	Total
TECHNICAL INCOME	69,565,164	15,641,058	314,721,848	312,852,973	40,325,627	43,350,160	43,071,374	-	839,528,204
Earned Premiums (Net of Reinsurer Share)	69,565,164	15,641,058	314,721,848	312,852,973	40,325,627	43,350,160	43,071,374	-	839,528,204
Premiums (Net of Reinsurer Share)	71,773,252	16,275,917	295,844,711	390,887,299	40,883,638	45,389,212	40,469,158	-	901,523,187
Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward) (+/-)	(2,208,088)	(634,859)	18,877,137	(78,034,326)	(558,011)	(2,039,052)	2,602,216	-	(61,994,983)
TECHNICAL EXPENSES	(61,526,173)	(6,047,051)	(361,656,870)	(316,048,350)	(33,313,173)	(33,250,971)	(36,002,048)	-	(847,844,636)
Total Claims (Net of Reinsurer Share)	(33,259,331)	(2,480,204)	(270,639,600)	(256,344,577)	(9,181,841)	(3,816,787)	(18,815,760)	-	(594,538,100)
Claims Paid (Net of Reinsurer Share)	(23,711,430)	(3,803,886)	(283,711,239)	(140,120,619)	(8,428,711)	(3,546,560)	(7,287,944)	-	(470,610,389)
Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward) (+/-)	(9,547,901)	1,323,682	13,071,639	(116,223,958)	(753,130)	(270,227)	(11,527,816)	-	(123,927,711)
Commission income/(expenses) (Net)	(12,298,526)	(2,121,026)	(54,583,235)	(30,327,231)	(15,287,467)	(20,185,815)	(7,485,667)	-	(142,288,967)
Operating Expenses	(14,120,538)	(1,030,366)	(30,034,003)	(21,066,598)	(7,772,743)	(8,096,910)	(8,556,567)	-	(90,677,725)
Other Operating Income / Expenses	(1,847,778)	(415,455)	(6,400,032)	(8,309,944)	(1,071,122)	(1,151,459)	(1,144,054)	-	(20,339,844)
Technical Profit	8,038,991	9,594,007	(46,935,022)	(3,195,377)	7,012,454	10,099,189	7,069,326	-	(8,316,432)
Investment income	-	-	-	-	-	-	-	125,719,455	125,719,455
Foreign exchange income	-	-	-	-	-	-	-	(8,438,320)	(8,438,320)
Tax expense	-	-	-	-	-	-	-	(25,057,072)	(25,057,072)
Net Profit / (Loss)	8,038,991	9,594,007	(46,935,022)	(3,195,377)	7,012,454	10,099,189	7,069,326	92,224,063	83,907,631

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

5. Tangible assets

As of June 30, 2019 and 2018 tangible assets movement and its accumulated depreciation is as follows:

Costs:	January 1, 2019	Additions	Disposals	Transfers	June 30, 2019
Property for operational use	1,598,569	-	-	-	1,598,569
Motor vehicles	2,720,001	-	-	-	2,720,001
Furniture and fixtures and leased tangible assets	23,741,539	2,537,066	(704,504)	-	25,574,101
Other tangible assets (including leasehold improvements)	21,052,437	47,390	-	-	21,099,827
Total	49,112,546	2,584,456	(704,504)	-	50,992,498
Accumulated depreciation: (-)					
Property for operational use	(569,248)	(15,854)	-	-	(585,102)
Motor vehicles	(5,962)	(269,764)	-	-	(275,726)
Furniture and fixtures and leased tangible assets	(14,906,985)	(1,396,679)	607,094	-	(15,696,570)
Other tangible assets	(9,300,583)	(1,212,511)	-	-	(10,513,094)
Total	(24,782,778)	(2,894,808)	607,094	-	(27,070,492)
Net book value	24,329,768			-	23,922,006
Costs:					
	January 1, 2018	Additions	Disposals	Transfers	June 30, 2018
Property for operational use	1,598,569	-	-	-	1,598,569
Furniture and fixtures and leased tangible assets	23,957,267	424,558	(141,860)	-	24,239,965
Other tangible assets (including leasehold improvements)	21,412,252	388,400	(387,894)	-	21,412,758
Total	46,968,088	812,958	(529,754)	-	47,251,292
Accumulated depreciation: (-)					
Property for operational use	(537,189)	(15,902)	-	-	(553,091)
Furniture and fixtures and leased tangible assets	(12,652,946)	(1,499,829)	129,677	-	(14,023,098)
Other tangible assets	(7,580,602)	(1,183,293)	246,552	-	(8,517,343)
Total	(20,770,737)	(2,699,024)	376,229	-	(23,093,532)
Net book value	26,197,351			-	24,157,760

The Company has not accounted for any impairment provision for tangible fixed assets in the current period.

Total depreciation expense is TL 15,656,258 (January 1 - June 30, 2018: TL 10,151,809).

The Company's right-of use assets movement is as follows:

Right of use assets	January 1, 2019	Additions	Disposals	June 30, 2019
Real estate	27,717,430	-	-	27,717,430
Motor vehicles	6,080,531	-	-	6,080,531
	33,797,961	-	-	33,797,961
Accumulated depreciation				
	January 1, 2019	Period charge	Disposals	June 30, 2019
Real estate	-	(2,765,337)	-	(2,765,337)
Motor vehicles	-	(1,298,077)	-	(1,298,077)
	-	(4,063,414)	-	(4,063,414)
Net book value	33,797,961			29,734,547

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

6. Intangible assets

Costs:	January 1, 2019	Additions	Disposals	Transfers	June 30, 2019
Rights	111,808,560	9,670,346	(275,900)	-	121,203,006
Advances given for intangible assets	1,949,163	1,467,560	-	-	3,416,723
Total	113,757,723	11,137,906	(275,900)	-	124,619,729
Accumulated depreciation: (-)					
Rights	(58,117,829)	(8,698,036)	215,814	-	(66,600,051)
Total	(58,117,829)	(8,698,036)	215,814	-	(66,600,051)
Net book value	55,639,894				58,019,678
Costs:	January 1, 2018	Additions	Disposals	Transfers	June 30, 2018
Rights	87,041,349	6,822,451	-	-	93,863,800
Advances given for intangible assets	2,600,646	608,460	-	-	3,209,106
Total	89,641,995	7,430,911	-	-	97,072,906
Accumulated depreciation: (-)					
Rights	(43,097,276)	(7,452,785)	-	-	(50,550,061)
Total	(43,097,276)	(7,452,785)	-	-	(50,550,061)
Net book value	46,544,719				46,522,845

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

7. Management of insurance and financial risk

Foreign currency risk

The Company is exposed to foreign exchange risk through the impact of rate changes at the translation of Turkish Lira pertaining to foreign currency denominated assets and liabilities. These risks are monitored by the analysis of exchange rate position. The details of the Company’s foreign currency denominated assets and liabilities as of June 30, 2019 and December 31, 2018 are disclosed below:

June 30, 2019			
Banks (Foreign Currency)	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	5,180,112	5.7551	29,812,063
EUR	890,355	6.5507	5,832,448
GBP	32,846	7.2855	239,300
CHF	943	5.3317	5,028
Other	1,993	5.8894	11,738
Total			35,900,577

Receivables from Insurance Operations	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	49,047,950	5.7551	282,275,857
EUR	20,429,788	6.5507	133,829,412
GBP	193,068	7.2855	1,406,597
CHF	0	5.8894	0
Total			417,511,866

Marketable Securities	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	28,236,261	5.7551	162,502,507
Total			162,502,507

Outstanding Claims Reserve	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	(8,251,513)	5.7551	(47,488,282)
EUR	(1,884,214)	6.5507	(12,342,921)
Other			(4,983)
Total			(59,836,186)

Payables from Insurance Operations	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	(55,819,587)	5.7551	(321,247,305)
EUR	(13,681,153)	6.5507	(89,621,129)
Other			(3,924,384)
Total			(414,792,818)

Net Foreign Currency Position			141,285,946
December 31, 2018			
Banks (Foreign Currency)	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	5,165,611	5.2609	27,175,763
EUR	2,029,314	6.0280	12,232,705
GBP	55,032	6.6528	366,117
CHF	157,666	5.3352	841,180
Total			40,615,765

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AS AT JUNE 30, 2019**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

7. Management of insurance and financial risk (Continued)

Receivables from Insurance Operations	Amount in Foreign		Amount (TL)
	Currency	Exchange Rate	
USD	28,691,649	5.2609	150,943,896
EUR	17,295,218	6.0280	104,255,574
GBP	107,134	6.6528	712,741
CHF	8,052	5.3352	42,959
Total			255,955,170

Marketable Securities	Amount in Foreign		Amount (TL)
	Currency	Exchange Rate	
USD	23,320,119	5.2609	122,684,814
Total			122,684,814

Outstanding Claims Reserve	Amount in Foreign		Amount (TL)
	Currency	Exchange Rate	
USD	(6,818,960)	5.2609	(35,873,867)
EUR	(1,109,743)	6.0280	(6,689,531)
Other			(4,501)
Total			(42,567,899)

Payables from Insurance Operations	Amount in Foreign		Amount (TL)
	Currency	Exchange Rate	
USD	(35,271,589)	5.2609	(185,560,303)
EUR	(7,373,885)	6.0280	(44,449,779)
Other			(2,193,297)
Total			(232,203,379)

Net Foreign Currency Position			144,484,471
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

7. Management of insurance and financial risk (Continued)

Liquidity risk

Liquidity risk is the possibility of non-performance of the Company’s due liabilities. Events that give rise to funding shortages, such as; market deteriorations and decrease in credit ratings, are the main reasons of liquidity risk. The Company manages its liquidity risk through having adequate cash and cash equivalents in order to fulfill its current and possible liabilities by allocating its funds.

Table of liquidity risk as of June 30, 2019 is as follows:

June 30, 2019	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5 years and over	No maturity	Total
Cash and cash equivalents	721,278,197	443,911,534	736,235,769	-	-	36,699,578	1,938,125,078
Financial assets held for trading	330,645,148	-	-	-	-	109,305,441	439,950,589
Financial assets held to maturity	-	-	-	26,481,451	-	-	26,481,451
Financial assets available for sale	20,690,084	27,480,235	80,916,676	371,869,334	47,889,130	29,357,090	578,202,549
Investments on policyholders’ risk	-	-	-	1,742,288	-	-	1,742,288
Receivables from main operations	247,080,441	176,181,074	266,738,609	24,535,514	-	-	714,535,638
Due from reinsurance companies	-	39,092,858	-	-	-	-	39,092,858
Reinsurers’ share of insurance liabilities	909,578,892	651,050,201	833,519,662	110,352,592	7,618,915	-	2,512,120,262
Equity securities	-	-	-	-	-	430,032	430,032
Derivative financial assets	-	-	16,334,764	-	-	-	16,334,764
Other assets	-	160,666,013	-	-	-	-	160,666,013
Total Assets	2,229,272,762	1,498,381,915	1,933,745,480	534,981,179	55,508,045	175,792,141	6,427,681,522
Obligations under repurchase agreements	239,097,473	-	-	-	-	-	239,097,473
Insurance liabilities	1,519,914,943	1,218,715,315	1,944,940,687	180,696,052	12,475,538	-	4,876,742,535
Due to reinsurers	-	-	622,931,056	-	-	-	622,931,056
Trade and other payables	-	-	407,591,067	-	-	-	407,591,067
Total liabilities	1,759,012,416	1,218,715,315	2,975,462,810	180,696,052	12,475,538	-	6,146,362,131
Liquidity surplus/(deficit)	470,260,346	279,666,600	(1,041,717,330)	354,285,127	43,032,507	175,792,141	281,319,391

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
AS AT JUNE 30, 2018**

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7. Management of insurance and financial risk (Continued)

Table of liquidity risk as of December 31, 2018 is as follows:

December 31, 2018	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5 years and over	No maturity	Total
Cash and cash equivalents	486,866,689	579,752,804	886,833,419	-	-	16,115,750	1,969,568,662
Financial assets available for sale	2,098,623	45,006,797	110,705,440	145,327,830	52,382,624	23,677,962	379,199,276
Financial assets held for trading	-	-	-	-	-	168,805,442	168,805,442
Financial assets held to maturity	-	-	-	9,752,674	-	-	9,752,674
Investments on policyholders’ risk	-	-	-	1,686,241	-	-	1,686,241
Receivables from main operations	173,197,383	185,593,559	153,796,825	37,435,171	-	-	550,022,938
Due from reinsurance companies	-	28,966,554	-	-	-	-	28,966,554
Reinsurers’ share of insurance liabilities	720,110,812	577,060,478	665,232,795	85,291,524	7,657,541	-	2,055,353,150
Equity securities	-	-	-	-	-	430,032	430,032
Derivative financial assets	-	-	33,895,401	-	-	-	33,895,401
Other assets	-	174,005,495	-	-	-	-	174,005,495
Total Assets	1,382,273,507	1,590,385,687	1,850,463,880	279,493,440	60,040,165	209,029,186	5,371,685,865
Obligations under repurchase agreements	49,954,452	-	-	-	-	-	49,954,452
Insurance liabilities	1,250,723,542	1,072,135,412	1,662,070,037	140,913,416	12,651,318	-	4,138,493,725
Due to reinsurers	36,696,709	71,438,385	338,696,751	-	-	-	446,831,845
Trade and other payables	14,557,153	28,338,768	134,394,297	-	-	-	177,290,218
Total liabilities	1,351,931,856	1,171,912,565	2,135,161,085	140,913,416	12,651,318	-	4,812,570,240
Liquidity surplus/(deficit)	30,341,651	418,473,122	(284,697,205)	138,580,024	47,388,847	209,029,186	559,115,625

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

8. Financial assets

Available for sale debt securities:

	June 30, 2019		
	Cost Value	Fair Value	Book Value
Private bonds	256,042,664	274,803,432	274,803,432
Eurobonds	170,678,239	162,258,803	162,258,803
Equities	30,092,087	28,927,058	28,927,058
Government bonds	107,405,789	112,213,256	112,213,256
Total	564,218,779	578,202,549	578,202,549

	December 31, 2018		
	Cost Value	Fair Value	Book Value
Private bonds	218,835,732	233,265,994	233,265,994
Eurobonds	134,782,226	122,684,814	122,684,814
Equities	24,215,782	23,247,732	23,247,732
Government bonds	736	736	736
Total	377,834,476	379,199,276	379,199,276

Held for trading at insurees risk:

	June 30, 2019		
	Cost Value	Fair Value	Book Value
Investment Funds	84,415,920	109,305,441	109,305,441
Reverse Repo	330,000,000	330,645,148	330,645,148
Total	414,415,920	439,950,589	439,950,589

	December 31, 2018		
	Cost Value	Fair Value	Book Value
Investment Funds	142,717,574	168,805,442	168,805,442
Total	142,717,574	168,805,442	168,805,442

Financial assets at insurees' risk:

	June 30, 2019		
	Cost Value	Fair Value	Book Value
Government bonds	1,647,665	1,742,288	1,742,288
Total	1,647,665	1,742,288	1,742,288

	December 31, 2018		
	Cost Value	Fair Value	Book Value
Government bonds	1,647,665	1,686,241	1,686,241
Total	1,647,665	1,686,241	1,686,241

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

8. Financial assets (Continued)

Held to maturity:

June 30, 2019			
	Cost Value	Fair Value	Book Value
Government bonds	25,445,200	26,481,451	26,481,451
Total	25,445,200	26,481,451	26,481,451

December 31, 2018			
	Cost Value	Fair Value	Book Value
Government bonds	9,194,956	9,752,674	9,752,674
Total	9,194,956	9,752,674	9,752,674

List of the investments and fair values is as below:

June 30, 2019			
	Cost Value	Fair Value	Book Value
<i>Equity investments</i>			
Tarsim	430,032	-	430,032
Total	430,032	-	430,032

December 31, 2018			
	Cost Value	Fair Value	Book Value
<i>Equity investments</i>			
Merter BV (*)	30,116,653	-	-
Tarsim	430,032	-	430,032
Total	30,546,685	-	430,032

(*) The Company’s subsidiary Merter BV has been sold in exchange for 1 Euro. The subsidiary’s book value and its provision has been accounted under “Other operating expenses” account.

Fair Value Hierarchy

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. Fair value measurements are performed in accordance with the following fair value measurement hierarchy.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

8. Financial assets (Continued)

	June 30, 2019	Level 1	Level2	Level 3
Available for sale at company’s risk	578,202,549	578,202,549	-	-
Held for trading at company’s risk	439,950,589	439,950,589	-	-
Held to maturity at company’s risk	26,481,451	26,481,451	-	-
Available for sale at insurees' risk	1,742,288	1,742,288	-	-
Equity securities, net	430,032	-	-	430,032
Total	1,046,806,909	1,046,376,877	-	430,032

	December 31, 2018	Level 1	Level2	Level 3
Available for sale at company’s risk	379,199,276	379,199,276	-	-
Held for trading at company’s risk	168,805,442	168,805,442	-	-
Held to maturity at company’s risk	9,752,674	9,752,674	-	-
Available for sale at insurees' risk	1,686,241	1,686,241	-	-
Equity securities, net	430,032	-	-	430,032
Total	559,873,665	559,443,633	-	430,032

9. Cash and cash equivalents

The details of cash and cash equivalents of the Company are as follows:

	June 30, 2019	December 31, 2018
Cash at banks	1,376,873,074	1,485,633,722
-time deposits	1,340,173,496	1,469,517,973
-demand deposits	36,699,578	16,115,749
Bank guaranteed credit card receivables with maturity less than 3 months	561,252,004	483,934,940
Total cash and cash equivalents	1,938,125,078	1,969,568,662

The maturities of the Company’s time deposits as of June 30, 2019 are less than three months (December 31, 2018: Less than three months).

Cash and cash equivalents that are included in the statements of cash flows for the periods January 1 - June 30, 2019 and 2018 are as follows:

	June 30, 2019	December 31, 2018
Total cash and cash equivalents	1,938,125,078	1,969,568,662
Interest accrual on cash at banks (-)	(23,069,164)	(11,676,242)
Blocked time deposits	(139,769,019)	(144,431,282)
Blocked credit card receivables	(50,000,000)	(50,000,000)
Cash and cash equivalents per statement of cash flow	1,725,286,895	1,763,461,138

Weighted average interest rates of time deposits:

	June 30, 2019	December 31, 2018
TL	19.50 - 24.50	18.00 - 30.00
USD	2.50 - 3.50	1.15 - 3.75
EUR	1.00 - 1.50	1.40 - 2.85

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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10. Equity

As of June 30, 2019, the Company’s total amount of nominal shares is 30,600,000,000 (December 31, 2018: 30,600,000,000) which has all been paid. The face value of the Company’s common stocks is TL 0,01 each and the total nominal amount is TL 306,000,000 (December 31, 2018: TL 306,000,000).

Movement of common stocks at opening balance and closing balance is as follows:

	January 1, 2019		Issued Capital		Amortised		June 30, 2019	
	Unit	Nominal TL	Unit	Nominal TL	Unit	Nominal TL	Unit	Nominal TL
Paid	30,600,000,000	306,000,000	-	-	-	-	30,600,000,000	306,000,000
Total	30,600,000,000	306,000,000	-	-	-	-	30,600,000,000	306,000,000
	January 1, 2018		Issued Capital		Amortised		June 30, 2018	
	Unit	Nominal TL	Unit	Nominal TL	Unit	Nominal TL	Unit	Nominal TL
Paid	30,600,000,000	306,000,000	-	-	-	-	30,600,000,000	306,000,000
Total	30,600,000,000	306,000,000	-	-	-	-	30,600,000,000	306,000,000

Movement of legal reserves is as follows:

Legal Reserves	2019	2018
Opening balance, January 1	112,230,612	95,403,929
Transfers from retained earnings	25,659,080	16,826,683
Closing balance, June 30	137,889,692	112,230,612

Actuarial gain / (loss)

In accordance with changes regarding “IAS 19 - Employee Benefits” effective as of January 1, 2013, actuarial loss amounting to TL 5,392,352 (net off deferred tax: TL 4,313,882) resulting from retirement pay liability calculation has been accounted to extraordinary reserves under equity.

Movement of actuarial loss arising from employee benefit is as follows:

Actuarial Loss	2019	2018
Opening balance, January 1	4,502,523	4,053,534
Change for the period	889,829	(264,611)
Closing balance, June 30	5,392,352	3,788,923

Available for sale investments fund:

The unrealized gains and losses that result from the changes in the fair values of available for sale financial assets are directly recognized in the shareholders’ equity as “Available for sale investments fund”. Movement of available for sale investments fund is below:

Available for sale investments fund	2019	2018
Opening balance, January 1	(10,638,677)	(14,469)
Increase/decrease in value recognized under the shareholders’ equity in the current period	2,628,167	(6,337,525)
Closing balance, June 30	(8,010,510)	(6,351,994)

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11. Insurance liabilities

Gross	June 30, 2019	December 31, 2018
Outstanding claims provision	2,774,023,333	2,367,199,719
Reserve for unearned premiums	2,101,248,408	1,769,723,313
Life actuarial mathematical reserves	1,307,312	1,326,272
Life profit share provision	145,257	147,364
Bonus and rebates provision	18,225	97,057
Total	4,876,742,535	4,138,493,725
Reinsurance Share	June 30, 2019	December 31, 2018
Reinsurers’ share of outstanding claims	1,562,552,022	1,325,805,073
Reinsurers’ share of unearned premiums	949,568,240	729,548,077
Total	2,512,120,262	2,055,353,150
Net	June 30, 2019	December 31, 2018
Net outstanding claims	1,211,471,311	1,041,394,646
Net unearned premiums	1,151,680,168	1,040,175,236
Life actuarial mathematical reserves	1,307,312	1,326,272
Life profit share provision	145,257	147,364
Bonus and rebates provision	18,225	97,057
Total	2,364,622,273	2,083,140,575

12. Payables to reinsurers, trade and other payables and lease liabilities

	June 30, 2019	December 31, 2018
Payables to reinsurers	580,255,549	418,719,301
Payables to SSI regarding medical expenses	42,675,507	28,112,544
Payables due to main operations	622,931,056	446,831,845
Payables to contracted institutions	31,301,550	54,098,804
Taxes payable	28,198,525	31,884,957
Payables to Turkish Catastrophe Insurance Pool	26,238,348	18,902,758
Payables to suppliers	12,307,953	26,701,130
Other	4,948,721	5,369,096
Total other short term payables	102,995,097	136,956,745
Total financial liabilities trade and other payables, deferred income	725,926,153	583,788,590

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

12. Payables to reinsurers, trade and other payables and lease liabilities (Continued)

As at June 30, 2019 and January 1, 2019; lease liabilities are as follows:

	June 30, 2019	January 1, 2019
Short-term lease liabilities (undiscounted)	13,749,179	10,236,560
Long term lease liabilities (undiscounted)	41,551,252	48,104,919
Discount amount with lease's incremental borrowing rate of interest	(23,173,274)	(27,336,518)
Total	32,127,157	31,004,961

Movement of lease liabilities for the period ended June 30, 2019 and January 1, 2019 are as follows:

	2019
Opening balance, January 1	-
IFRS 16 impact	31,004,961
Lease payments	(3,041,048)
Interest payments	4,163,244
Closing balance, March 31	32,127,157

13. Net insurance premium income

The distribution of premium income is as follows:

	January 1 -		June 30, 2019		January 1 -		June 30, 2018	
	Gross	Reinsurers' share	Gross	Reinsurers' share	Gross	Reinsurers' share	Gross	Reinsurers' share
Written premium	2,148,659,589	(1,024,126,155)	1,124,533,434	1,676,094,510	(774,570,823)	901,523,687	1,676,094,510	(774,570,823)
Change in unearned premium reserve	(337,419,571)	225,914,642	(111,504,929)	(226,645,606)	164,650,123	(61,995,483)	(226,645,606)	164,650,123
Total premium revenue	1,811,240,018	(798,211,513)	1,013,028,505	1,449,448,904	(609,920,700)	839,528,204	1,449,448,904	(609,920,700)
Motor Third Party Liability	649,093,354	(150,206,525)	498,886,829	533,193,540	(142,306,241)	390,887,299	533,193,540	(142,306,241)
Motor Own Damage	397,333,425	(21,493,190)	375,840,235	314,983,842	(19,139,131)	295,844,711	314,983,842	(19,139,131)
Fire	546,354,128	(434,314,581)	112,039,547	301,965,460	(230,192,208)	71,773,252	301,965,460	(230,192,208)
General Losses	194,110,826	(136,192,244)	57,918,582	170,923,944	(130,040,306)	40,883,638	170,923,944	(130,040,306)
Health	214,738,442	(161,697,876)	53,040,566	170,418,161	(125,028,949)	45,389,212	170,418,161	(125,028,949)
Marine	55,424,807	(40,927,256)	14,497,551	39,080,386	(22,804,469)	16,275,917	39,080,386	(22,804,469)
Other	91,604,607	(79,294,483)	12,310,124	145,528,677	(105,059,519)	40,469,158	145,528,677	(105,059,519)
Life	-	-	-	500	-	500	500	-
Total	2,148,659,589	(1,024,126,155)	1,124,533,434	1,676,094,510	(774,570,823)	901,523,687	1,676,094,510	(774,570,823)

14. Taxes

As at June 30, 2019 and December 31, 2018 prepaid income taxes are netted off with the current income tax payable as stated below:

	June 30, 2019	December 31, 2018
Income taxes payable	59,773,560	66,694,754
Prepaid income taxes	(16,139,257)	(54,453,247)
Tax payable/(asset)	43,634,303	12,241,507

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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14. Taxes (Continued)

Deferred tax

The Company recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for International Accounting Standards (IAS) purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IAS.

Tax rate is applied as 22% for the calculation of deferred tax asset and liabilities. The details of deferred tax are presented in the following statements:

	Cumulative temporary differences		Deferred tax assets/ (liabilities)	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Discounting in outstanding claims	206,557,891	168,009,941	45,442,736	36,962,187
Unexpired risks reserve	18,439,220	20,653,059	4,056,628	4,543,673
General expense provision	16,857,799	3,552,176	3,708,716	781,479
Claim handling	17,565,055	14,999,175	3,513,011	2,999,835
Doubtful receivable provisions	7,607,087	3,874,390	1,673,559	852,366
Employment termination benefit	7,179,124	6,503,684	1,435,825	1,300,737
Bonus provision	5,905,740	7,131,516	1,299,263	1,568,934
Unused vacation provision	2,541,470	1,834,998	559,123	403,700
Impairment on financial assets	-	30,116,653	-	6,625,664
Useful life of tangible and intangible assets	(18,393,170)	(18,331,315)	(4,046,497)	(4,032,889)
Claim reserves	(18,439,218)	(20,653,059)	(4,056,628)	(4,543,673)
Equalization reserve	(81,499,491)	(74,904,423)	(17,929,888)	(16,478,973)
Other	6,605,827	14,961,763	1,453,282	3,291,587
Total deferred tax assets / liabilities	170,927,334	157,748,558	37,109,130	34,274,627

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017, “Law on the Amendment of Some Tax Acts and Some Other Laws”, corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

	June 30, 2019	June 30, 2018
Profit before taxes	189,354,928	108,964,703
Tax rate	22%	22%
Taxes on income per statutory tax rate	(41,658,084)	(23,972,235)
The effect of prior periods’ adjustments	(4,969,248)	-
The effect of non-deductible expenses	(2,542,724)	(1,084,837)
Closing balance	(49,170,056)	(25,057,072)

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15. Expenses by nature

	January 1 - June 30, 2019	January 1 - June 30, 2018
Personnel expenses	(52,744,183)	(43,848,531)
Depreciation expenses	(15,656,258)	(10,151,809)
Assistance expenses	(10,456,297)	(6,533,822)
Information technology expenses	(8,868,533)	(7,460,529)
Meeting and training expenses	(3,762,853)	(2,797,400)
Social relief expenses	(2,540,480)	(2,004,332)
Transportation expenses	(2,122,194)	(2,766,664)
Advertisement expenses	(2,070,959)	(3,760,258)
Repair and maintenance	(2,005,598)	(1,574,506)
Outsourcing service expenses	(1,740,826)	(1,334,584)
Building expenses	(1,115,482)	(4,866,155)
Communication expenses	(944,739)	(897,262)
Other	(5,116,578)	(2,681,873)
Total	(109,144,980)	(90,677,725)

16. Insurance claims and claims recovered from reinsurers**June 30, 2019**

	Gross	Reinsurers' Share	Net
Paid Claims	839,691,249	(257,216,894)	582,474,355
Change in outstanding claims	406,823,612	(236,746,947)	170,076,665
Change in mathematical reserves	(21,067)	-	(21,067)
Bonus and rebates provision	(60,451,149)	60,372,319	(78,830)
Total	1,186,042,645	(433,591,522)	752,451,123

June 30, 2018

	Gross	Reinsurers' Share	Net
Paid Claims	654,465,815	(183,855,426)	470,610,389
Change in outstanding claims	326,103,710	(202,144,764)	123,958,946
Change in mathematical reserves	(127,685)	-	(127,685)
Bonus and rebates provision	53,155,564	(53,059,114)	96,450
Total	1,033,597,404	(439,059,304)	594,538,100

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17. Related parties

The details of transactions between the Company and other related parties are disclosed below:

Due from /to related parties	June 30, 2019	December 31, 2018
Shareholder’s subsidiaries	76,997,181	62,857,652
Shareholders	126,609	61,264
Total	77,123,790	62,918,916
Banks	June 30, 2019	December 31, 2018
Shareholder’s subsidiaries	211,694,475	322,410,622
Total	211,694,475	322,410,622
Marketable securities	June 30, 2019	December 31, 2018
Shareholder’s subsidiaries	67,915,316	48,709,250
Total	67,915,316	48,709,250
Investment funds	June 30, 2019	December 31, 2018
Shareholder’s subsidiaries	109,305,500	168,805,699
Total	109,305,500	168,805,699
Written Premium	June 30, 2019	June 30, 2018
Shareholder’s subsidiaries	85,188,805	71,455,019
Shareholders	1,152,660	980,611
Total	86,341,465	72,435,630
Claims Paid	June 30, 2019	June 30, 2018
Shareholder’s subsidiaries	22,856,118	36,598,950
Total	22,856,118	36,598,950
Investment Income	June 30, 2019	June 30, 2018
Shareholder’s subsidiaries	27,370,901	19,927,130
Total	27,370,901	19,927,130
Commission Expense	June 30, 2019	June 30, 2018
Shareholder’s subsidiaries	57,574,736	95,971,035
Total	57,574,736	95,971,035

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18. Contingencies

As of June 24, 2014, Tax Inspection Board of T.C. Ministry of Finance has launched a limited tax investigation related to the Banking and Insurance Transaction Tax for the years 2009, 2010, 2011 and 2012 and as a consequence of the tax inspection, tax of TL 1,8 million and tax penalty of TL 2,8 million for the year 2009, tax of TL 2 million and tax penalty of TL 3 million for the year 2010, tax of TL 3 million and tax penalty of TL 4,6 million for the year 2011 and tax of TL 4,3 million and tax penalty of TL 6,4 million for the year 2012 and in total tax and tax penalty of TL 27,9 million related to Banking Insurance Transaction Tax were imposed to the Company. There is no accrued interest on this amount as of report date. The Company has not booked any provision in the financial statements since the Company believes that its practice is in compliance with the regulations. On January 16, 2015, the Company filed a reconciliation request for the year 2009 and on February 20, 2015 filed a reconciliation request for the years 2010, 2011 and 2012 to the Large Taxpayers Office Commission of Reconciliation. The reconciliation meeting took place on February 15, 2018, however parties could not reach a consensus. As a consequence, the Company sued Large Taxpayers Office on February 27, 2018. Tax courts decided in favor of the Company for the years 2009, 2010, 2011 and 2012.

19. Subsequent events

As mentioned in Note 18, the tax court has decided in favour of the Company for the years 2009, 2010, 2011 and 2012 about the Banking and Insurance Transaction Tax investigation. Tax department has gone for an appeal for 2009 court decision and administrative court has rejected the appeal.

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